LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6660
BILL NUMBER: SB 333

DATE PREPARED: Mar 5, 2001
BILL AMENDED: Mar 5, 2001

SUBJECT: Capital Investment Tax Credit.

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FUNDS AFFECTED: **X** **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) The bill provides a credit against a taxpayer's state tax liability for certain qualified capital investments made in Shelby County. The bill also provides that the amount of the credit is equal to 14% of the amount of the qualified investment. The bill further requires the Department of Commerce to certify the investments as being eligible for the credit. It also provides that if a taxpayer receives a credit and does not make the qualified investment for which the credit was granted within the time required, the Department of Commerce may require the taxpayer to repay the additional amount of state tax liability that would have been paid by the taxpayer if the credit had not been granted, plus interest.

Effective Date: January 1, 2001 (retroactive).

Explanation of State Expenditures: (Revised) This bill creates the Capital Investment Tax Credit and would require the Indiana Department of Commerce (IDOC) to adopt rules and review notices submitted by companies intending to claim this credit. The IDOC would then inform the Department of State Revenue (DOR) whether or not the company is entitled to the credit. Presently, only one company is expected to qualify for the tax credit. Thus, any expenses related to this review process should be minimal and can be absorbed by the IDOC. According to State Department of Personnel information, the Lieutenant Governor's Office had 35 vacant full-time positions as of December 2000.

The DOR would have to adopt rules and develop new forms for the reporting of this new credit. but would be able to absorb any related expenses of processing, printing, and programming within its current budget.

Explanation of State Revenues: (Revised) *The Capital Investment Tax Credit could reduce state tax revenues by as much as $3 M each year beginning in FY 2002.* This bill creates a credit for companies making certain qualified investments in Shelby County provided that the average wage paid to employees exceeds the average wage in that county. Qualified investments would include the purchase of new manufacturing equipment, on-site infrastructure improvements, and other expenditures outlined in the bill.

The credit would be equal to 14% of the qualified investment made in a taxable year. The total credit would not be taken at once, but would be divided equally over seven years, beginning in the year in which it is granted. Currently, only one company is expected to qualify for the tax credit. The qualified investment by this company is expected to be $150 M. Therefore, the company would be entitled to a total tax credit of $21 M with an annual impact of $3 M for seven years (excluding any amounts carried forward). This could be reduced by the "clawback" provision of the bill, if qualifying company fails to make the qualified investment within five years and the DOR seeks repayment of the tax credit.

This credit could be taken against a taxpayer's liability under the Gross Income Tax, the Adjusted Gross Income Tax, the Supplemental Net Income Tax, the Bank Tax, the Savings and Loan Association Tax, the Insurance Premium Tax, and the Financial Institutions Tax. Revenue from these taxes is deposited in the General Fund and the Property Tax Replacement Fund. If a pass-through entity without state tax liability is entitled to a credit, a shareholder, partner, or a member of the entity may receive a credit equal to the amount determined for the entity multiplied by that person's share of distributive income.

If the credit exceeds a taxpayer's liability in a single year, the excess may be carried forward for up to three consecutive years. No carrybacks or refunds would be allowed. As this credit is retroactive to January 1, 2001, the first year of state impact would be FY 2002.

The bill requires that items for which the tax credit was granted must be fully installed or completed within 5 years of the date on which the IDOC informs the DOR that the taxpayer is entitled to the tax credit. If not, the "clawback" provision in the bill provides that the DOR may require the taxpayer to repay the amount of tax liability offset by the tax credit, plus interest.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Department of Commerce, Department of State Revenue.

Local Agencies Affected:

Information Sources: